ANNUAL BUDGET OF

NDWEDWE LOCAL MUNICIPALITY

2011/2012 TO 2013/14

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

Copies of this document can be viewed:

- **Ndwedwe main library and mobile library at Bhamshela**
- **Ndwedwe Thusong centre**
- **At www.ndwedwelm.gov.za**
- **At www.treasury.gov.za**

Table of Contents

MAYOR'S REPORT

The 2011/12 financial year is very critical to the Ndwedwe populace in that it marks the end of the five year term of Councillors elected in 2006. The 2006/2011 Council leadership being guided by a National call for all 283 country's municipalities to formulate, adopt and execute a Plan to make Local Government Work Better For You, also found itself duty bound to ensure that Ndwedwe Local municipality also set its attainable targets.
The ten point development plan prioritizing ten key development tasks against which the Council would have to be measured in 2011 came into being and the same shall apply in the coming budget year.

The plan realistically looks into service delivery backlogs against the available municipal resources and begins to set out the MTREF development path through which the identified key priority needs could be achieved. Its heartening to mention that through visionary leadership and management of both Council and Municipality respectively, staff dedication, ratepayers' continued support and willingness by communities at large to actively partake in municipal programmes has indeed contributed to the realization of the 2006/2011 plan despite the municipality's limited budget against ever increasing community needs.

The Municipality has performed well especially on areas of infrastructure provisioning (access roads, crèches and power substation), preliminary town establishment projects (civic centre and streetlights), public participation, integrated youth development, integrated poverty alleviation measures and building e.g. good financial governance. It is with pride to mention that through this visionary 2006/2011 plan the municipality has over the past five years been receiving the clean bill of health (unqualified audit report) in terms of financial management.

In a nutshell the 2006/2011 plan has laid a solid foundation for Council and Municipality to adhere and foster the financial governance values, principles and practices in a manner that is in tandem with the financial governance legislations and best practices and thereby ensuring that the people of Ndwedwe dream of a better life for all is realized in their lifetime.
Secondly this coming budget year (2011/12) is key in that, people of Ndwedwe through the IDP/BUDGET Izimbizo have acknowledged the good work the 2006/2011 leadership and management of Council and Municipality have done and went further to speak to the key development priorities the new Council leadership will have to execute in the coming years (2011/12 up to 2013/14).

The revised plan encapsulates key priorities which are informed by the five year government priorities are: Expand and Maintain the Infrastructure, Expand and Maintain the Community Facilities, Expand Access to Integrated Poverty Programmes, Deepen Public Participation, Implement Programmes of inclusive and job creation and implement integrated youth development programmes.

Through the budget being tabled today the council/municipality working together with the people and the stakeholders of Ndwedwe will ensure that over the next four or five years we heed the National call by His Excellency J.G.ZUMA to all country's municipalities saying WORKING TOGETHER WE CAN BUILD BETTER COMMUNITIES.

1.2 Council Resolutions

On the 28th April 2011 the Council of Ndwedwe Local Municipality met in the Ward 14 Sports field (L) to consider the annual budget of the municipality for the financial year 2011/2012. The Council approved and adopted the following resolutions:

1. The Council of Ndwedwe Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:
   - 1.1 A1 Schedule municipal budget
   - 1.2 2011/2012 Budget MTREF
   - 1.3 Tariff of charges for 2011/12 financial year
   - 1.4 Organizational structure for 2011/12 financial year
   - 1.5 Revenue Enhancement Strategy

1.1 Executive Summary

This budget represents yet another milestone in the history of this municipality, this draft budget is the sixth Final Budget Approval to be adopted by this Council after 2006 Local Government Elections. The application of sound financial management principles for the compilation of municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitable to communities.

The following legislations, guidelines and circulars were used as sources for the compilation of 2011/2012 MTREF budget.

- Municipal Finance Management Act (No. 56 of 2003)
- Municipal Budget and Reporting Regulations (Government Gazette 32141)
- Budget Formats Guideline
- Annual Division of Revenue Act
- Municipal Structures Act (No. 117 of 1998), as amended
- Municipal Systems Act (No.32 of 2000), as amended
- Municipal Property Rates Act (No. 6 of 2004), as amended
- Municipal Fiscal Powers and Functions Act (No. 12 of 2007)
- MFMA Circular 12: Defination of Vote in MFMA
- MFMA Circular 42: Funding a Municipal Budget
- MFMA Circular 51: Municipal Budget Circular for the 2010/11 MTREF
- MFMA Circular 51: Municipal Budget Circular for the 2010/11 MTREF
- MFMA Circular 54: Municipal Budget Circular for the 2011/12 MTREF
- MFMA Circular 55: Guidance to municipalities for the preparation of 2011/12
- Local Government Capital Asset Management Guideline

These documents are available on the National Treasury's website.

Lack of reasonable revenue base for the municipality always remain a major challenge and it poses a serious threat to service delivery targets. The high level of conditional grants to a certain extent does not address the immediate needs of the community as per priorities of the IDP. Development of Revenue Enhancement Strategy directly responds to lack of revenue base challenge.

The main challenges experienced during the compilation of the 2011/12 MTREF can be summarized as follows:

- The ongoing difficulties in the national and local economy
- High number of poorly maintained community access roads or non existent at all.
- Substantial need of community infrastructure e.g. Sportfileds, CDC, Crèches etc
- The perpetual increase of Eskom electricity supply hence water supply by District Council.
- The need to increase municipal fleet in order to meet minimum service delivery standards
- Maintain an adequate balance filling the vacant posts and budget percentage of salaries against overall budget.
- The high prevalent of indigent households within Ndwedwe municipality.
- The re-demarcations of municipal boundaries may adversely affect revenue base
- Lack of revenue base

The following budget principles and guidelines directly informed the compilation of the 2011/12 MTREF:

- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI more especially on rates since this is third year of rates implementation.
- Budget items that were not properly utilized during March 2011 were considered versus the SDBIP and other competing needs from other budget items.
- The 2010/11 Adjustments Budget priorities and targets, as well as the baseline allocations contained in that Adjustments Budget were used as a the upper limits for the baselines for the 2011/12 annual budget.

2. In view of the aforementioned, the following table is a consolidated overview of the proposed 2011/12 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2011/12 MTREF

R thousand	Adjustments Budget 2010/11	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Total Operating Revenue	94,862,009	107,753,009	117,236,809	129,358,638
Total Operating Expenditure	57,709,009	60,229,009	63,853,810	71,614,638
(Surplus)/Deficit for the year	(37,153,000)	(47,524,000)	(53,383,000)	(57,744,000)
Total Capital Expenditure	37,153,000	47,524,000	53,383,000	57,744,000

Total operating revenue has grown by 12, 9 per cent or R12 891 000 million for the 2011/12 financial year when compared to the 2010/11 Adjustments Budget. For the two outer years, operational revenue will increase by 9, 5 and 12, 1 per cent respectively, equating to a total revenue growth of R34 496 629 million over the MTREF when compared to the 2010/11 financial year. This is mainly due to the substantial increase on the Equitable Share allocations and also other conditional grants allocations to the municipality.

Total operating expenditure for the 2011/12 financial year has been appropriated at R60 229 009 million when compared to the 2010/11 Adjustments Budget, operational expenditure has grown by 4,4 per cent in the 2011/12 budget and by 3,6 and 7,8 per cent for each of the respective outer years of the MTREF. The projected operating surplus is ring-fenced for Capital Expenditure as indicated on the table.

The Capital Expenditure has grown by 10, 4 per cent or R10 371 000 million when compared to the 2010/11 Adjustment Budget. For the two outer years the total capital expenditure will increase by 5, 9 and 4, 4 per cent respectively. Source of funding for total capital budget is 88 per cent financed by conditional grant funding whilst the remaining 12 per cent is financed through Equitable Share allocation.

3. Operating Revenue Framework

Development of Revenue Enhancement Strategy is a good catalyst of ensuring that limited sources of revenue available are utilized to the full benefit of Council. Revenue enhancement strategy forms part of the documents to be adopted and approved together with the draft budget.

National Treasury's MFMA circular No.51 deals, inter alia with the implementation of the MPRA, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0, 25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly. Property rates is 8, 4 per cent of the overall budget for 2011/12.

Municipal Valuer is in a process to re-look at the valuation roll with a view ascertain the extent of revenue loss or gain due to the new municipal demarcation boundaries which have recently been promulgated. Until such an exercise is fully completed then the adjustment on assessment rates budget shall take place. In view of the numerous challenges regarding implementation of rates act, the related rand age shall remain unchanged for 2011/12 whilst pertinent matters of rates are streamlined accordingly. Some of the pertinent matters relate to contact details of rate payers, identification of all land claims already gazetted etc.

Table 2 Summary of revenue classified by main revenue source is attached for ease of reference.

Table 3 Percentage growth in revenue by main revenue source is attached for ease of reference.

4. Operating Expenditure Framework

The Council's expenditure framework for the 2011/12 budget and MTREF is informed by the following:

- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit.
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA,
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan,
- Strict adherence to the principle of no *project plans no budget*. If there is no business plan no funding allocation can be made.

The budgeted allocation for employee related costs for the 2011/12 financial year totals R21 542 942 million, which equals 35 per cent of the total operating expenditure. 2011/12 is final year of the bargaining council three salary agreement. An annual increase is place at 9 per cent for purposes of budget however all parties to the bargaining agreement have an option re-open the negotiations should the CPI falls below 5 per cent. The new TASK salary grades shall alleviate the budgetary constraints since the grades are far below the existing grades before the TASK.

The cost associated with the remuneration of councilors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget.

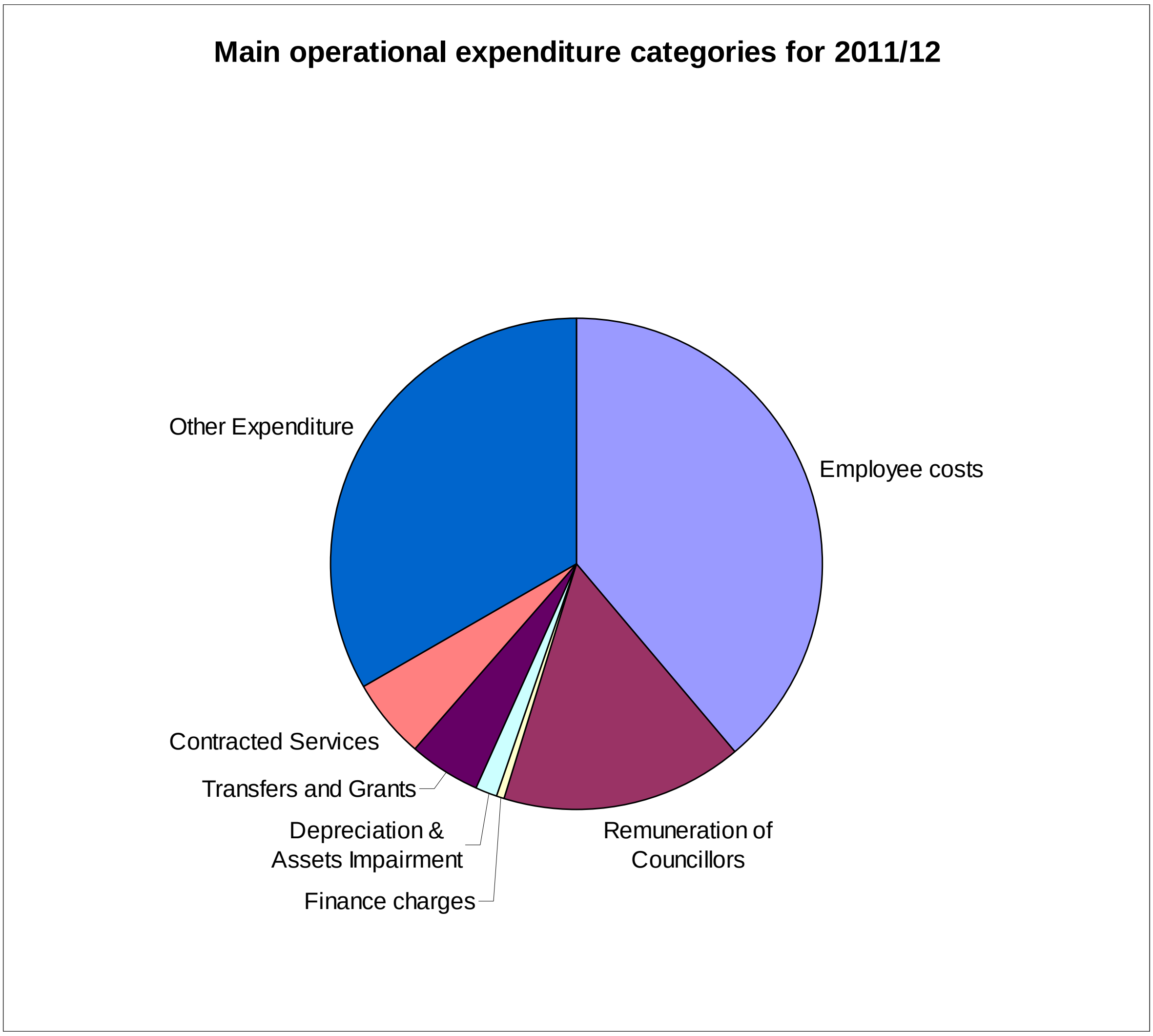
Provision for depreciation and asset impairment has been informed by the municipality's Fixed Asset management policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total to R700 000 thousand rand for 2011/12 financial year and equates to 1, 3 per cent of the total operating expenditure.

This amount does not cover actual depreciation for the whole year, after the assets register has been fully reworked the budget figure shall be adjusted accordingly, it must however be noted that this is an accounting transaction rather than actual flow of cash.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges make up 0, 7 per cent (R400 000) of operating expenditure excluding annual redemption for the 2011/12. Three additional bakkies were procured during 2010/11 which accounts for additional costs to the budget. Long-term loan was mainly used to procure fleet hopefully with the installation of satellite tracking device on the fleet may minimize costs of maintenance.

Other expenditure comprises of various line items relating to the daily operations of the municipality.

The following table gives breakdown of the main expenditure categories for the 2011/12 financial year.



Priority given to repairs and maintenance

A substantial budget is allocated towards upgrading of access roads and sport fields, the allocation for repairs and maintenance is 7, 7 per cent of the total operating expenditure budget for the 2011/12 financial year. Technical department is yet to come up with a properly quantified asset renewal strategy and repairs & maintenance plan for the municipality which shall inform the future budgets for repairs and maintenance. In order to alleviate budgetary constraints to the municipality it would be prudent for the municipality to hand over to department transport all roads that have been completed and in compliance with specifications of department.

Table related to repairs and maintenance is also attached for ease reference.

5. Capital Expenditure

For the 2011/12 infrastructure budget is R20 194 000 (MIG roads, bridge and sport fields), R1 680 000 (sports filed rehabilitation) and R20 000 000 (Town ship development). These amounts accounts for 88 per cent of the total capital budget for the 2011/12 financial year. No provision for additional fleet or plant and equipment which is a due to limited financial resources however the need to have additional fleet is there in order to ensure proper service delivery. A detailed capital budget is attached for ease of reference. KZN 293 A1 Schedule - FINAL 20042011.xlsx

Annual budget tables

All budget tables as required in terms of Section 8 of the municipal budget and reporting regulations are enclosed as part this analysis.